

1 could read this to you, but I think that's
2 exactly what I do. I talk about the
3 inefficiency in international payments. I
4 talk about XRP potentially capturing that
5 value. And then I say, "If you imagine that
6 international payments become cheaper and
7 faster, then there might be more of them."
8 That's what I'm talking about here.

9 MR. CERESNEY: This is all kind of a
10 thought experiment?

11 THE WITNESS: I think I'm very clear
12 here that I'm adopting the question or the
13 sort of valuation model and sort of setting --
14 in the -- initially setting the ceiling and
15 then sort of just -- this is extremely
16 speculative. And I think I -- I think I make
17 that point in here.

18 Q If you turn to page six, the top of
19 the page, is this -- we spoke about earlier
20 the possibility of Ripple hedging volatility
21 or -- that banks would have if they were to
22 hold up huge pile of XRP?

23 A You are talking about this, "Banks
24 likely won't hold XRP themselves unless either
25 the volatility risk is low or someone is

1 willing to do hedge it for them, which Ripple
2 might me willing to do?" Is that the statement
3 you are referring to?

4 Q Yes, yes.

5 A Yeah, that's similar to what we were
6 talking about before.

7 Q At the end of the second post, it
8 says -- it talks about customers holding a big
9 pile of XRP and how that affects demand. You
10 say, "By holding a big pile, they push up the
11 demand." Can you explain that, why that's
12 true?

13 A That statement on page --

14 MR. CERESNEY: It's this one
15 (indicating).

16 A Oh, oh, yes. So -- so if you -- if
17 you imagine this world where people are using
18 XRP to originate payments and then they hold a
19 pile of XRP, then that -- then that -- then
20 that is -- that is a direct increase in
21 demand.

22 MR. CERESNEY: But what's the
23 context of that whole post? I think you are
24 responding to something.

25 A Yeah. That's not entirely clear

1 what I'm responding to here.

2 Q Well, I think the question at the
3 top says, "Does the price of XRP increase if
4 no banks hold it in the future?" Then you say,
5 "Would be expected to increase the value of
6 XRP two obvious ways."

7 A And I assume that it's referring to
8 XRP as a vehicle currency. But it's not --
9 not entirely clear here. What was your
10 question?

11 Q I wanted to know how holding a large
12 pile of XRP would push up demand.

13 A Well, if -- if -- if various
14 different groups that want to originate
15 payments with XRP each accumulate a pile of
16 XRP, that is demand.

17 Q If you look at the second to last
18 post --

19 MR. CERESNEY: The Hello Ripple
20 community members?

21 Q Yes. The question is, "What's the
22 correlation between the future success of
23 Ripple as a company versus XRP currency?" You
24 say, "Since Ripple holds over sixty billion
25 XRP, there's a huge correlation between Ripple

1 success as a company and the long-term price
2 of XRP." When you talk about success, are you
3 talking about valuation and increase revenue
4 for Ripple?

5 A I think what I was talking about
6 there was the actual amount of money, the
7 actual amount of value that Ripple could
8 materialize for shareholders.

9 Q So is that valuation?

10 A Not so much valuation. Because
11 valuation is kind of at a point in time. But
12 more sort of the total amount of value that
13 Ripple could produce.

14 Q Then you go onto say, "The higher
15 that price, the more value Ripple can get out
16 of its XRP. Ripple's key business model is to
17 drive use and adoption of XRP, and ultimately
18 be able to realize more value from the XRP it
19 holds."

20 A And to be clear, the question that
21 I'm responding to is specifically the
22 connection between Ripple's success and XRP.

23 Q Right.

24 A So I'm talking about that -- not to
25 the -- I don't mean to imply here that there

1 aren't, you know, there aren't other factors
2 on both sides. I'm just talking about this
3 specific connection between those two.

4 Q Correct.

5 A There's certainly a connection in
6 the direction that Ripple holds a lot of XRP.
7 And so if the value of XRP, you know, remains
8 high over a long period of time, then that
9 could become valuable to Ripple stockholders.

10 Q And to Ripple the company?

11 A It's substantially the same thing.

12 (SEC Exhibit No. 85 was
13 marked for
14 identification.)

15 Q Showing you what has been marked as
16 Exhibit 85, which is again a post on Reddit.
17 The date on the document is 7/3/2018.

18 MR. CERESNEY: Same date. You think
19 you printed it out that day?

20 MS. WAXMAN: I think this is when I
21 viewed the document.

22 MR. CERESNEY: Okay. Okay.

23 MS. WAXMAN: But I'm not sure.

24 THE WITNESS: Okay.

25 (The witness examined the document.)

1 Q If you turn to page five --

2 A Yes.

3 Q It says -- someone's question says,

4 "Serious question: What percentage of

5 Ripple's value do you think comes from the XRP

6 that Ripple holds?"

7 A Yes.

8 Q That's a good question. How much

9 value does Ripple Lab get from its XRP?

10 A I would have to look at the numbers

11 to tell you. I don't know the numbers

12 offhand.

13 Q Do you have a rough idea?

14 A I have -- I think most -- I think --

15 I think -- well, we had a round of -- a large

16 round of investment recently. As -- if you

17 limit it strictly to revenue or do you also

18 include other funding sources. I would have

19 to -- again, I would have to look at the

20 numbers.

21 Q Did the company ever disclose how

22 much value it got from sales of XRP as opposed

23 to revenue from other products -- from

24 products?

25 A I believe the XRP markets reports

1 disclosed the revenue from XRP. I don't
2 believe that we publically disclosed revenue
3 from other sources. Funding rounds up
4 basically in conception.

5 Q But not revenue from product sales?

6 A No, I don't believe we disclosed
7 that information.

8 Q Then you go on -- the very last
9 paragraph says, "As per whether Ripple will
10 fail, if XRP fails, I can say that all of our
11 present plans fail."

12 A Yes.

13 Q Is that still true today?

14 A I think it's substantially true
15 today.

16 Q Why?

17 A Because all of this strategies that
18 we -- all of the strategies that we've
19 executed connect to XRP in some way. I guess
20 the closest thing to inception would be trying
21 to extract revenue from the RippleNet strategy
22 through transaction fees or licensing
23 agreements. But other than that, I would say
24 all of our current strategies are primarily --
25 are -- have enough of an XRP component that

1 they would require significant strategic
2 changes.

3 Q How small is the RippleNet strategy
4 component for the business?

5 A It's the -- it's the dominant
6 strategy of the company today.

7 Q The RippleNet strategy?

8 A Yes.

9 Q But outside of -- strike that.

10 (SEC Exhibit No. 86 was
11 marked for
12 identification.)

13 Q I don't have a copy of this
14 document, but it will be quick. I'm showing
15 you what has been marked as Exhibit 86, which
16 is an e-mail dated April 6, 2018. The subject
17 is [REDACTED] And it talks about an FX rate
18 log in connection with xRapid. And I was just
19 wondering if you can explain to me what
20 they're talking about.

21 (The witness examined the document.)

22 MR. CERESNEY: Is he on this e-mail?

23 MS. WAXMAN: He is.

24 MR. CERESNEY: CC'ed.

25 MS. WAXMAN: He's at the top.

1 A I'm CC'ed on it, yeah.

2 So I don't -- I don't specifically
3 recall what this issue was. I mean, I can
4 tell you what a rate lock is. But I can't
5 tell you what the specific issue --

6 MS. WAXMAN: I found more copies.
7 Sorry about that.

8 MR. CERESNEY: Okay. Thank you.

9 A It's unusual for me to be CC'ed on
10 an e-mail like this. I'm not really sure why
11 I was included on the distribution list. Do
12 you want me to explain what a rate lock is
13 generally?

14 Q Sure.

15 A So a rate lock is when you get an FX
16 quote, either you'll get a particular exchange
17 rate. Often, that quote is what the rate you
18 would have gotten had you performed the trade
19 at the time you got the quote. Like if you
20 look at a stock market and you get a quote on
21 a stock, that doesn't guarantee that you can
22 actually buy the stock at that price. Or if
23 you get a quote an FX market, that's a
24 snapshot.

25 So a lock would be a quote that you

1 had sometime to be able to make a decision
2 whether to accept or not. It would be more
3 like a commitment, more like an actual
4 enforceable growth.

5 Q What was the request being made with
6 respect to a rate lock?

7 A I can only tell you what it says in
8 the e-mail. Looks like somebody wanted the
9 ability to lock an FX quote for at least sixty
10 seconds. I don't have a recollection
11 beyond -- beyond what I'm reading in this
12 e-mail now.

13 MS. WAXMAN: Okay. Thank you. Okay.
14 Let's take a two-minute break, and then I
15 think we'll be done.

16 We are off the record at 5:25.

17 (A brief recess was taken.)

18 MS. WAXMAN: It's 5:32. We are back
19 on the record.

20 Mr. Schwartz, we have no further
21 questions today. I want to give you an
22 opportunity --

23 MR. CERESNEY: We don't have
24 anything.

25 MS. WAXMAN: Thank you very much for

1 sitting here all day. We appreciate it. We
2 are now off the record at 5:32.

3 (Whereupon, at 5:32 p.m., the
4 examination was concluded.)

5 * * * * *

PROOFREADER'S CERTIFICATE

In The Matter of: RIPPLE LABS, INC.

Witness: David Schwartz

File Number: NY-09875-A

Date: Thursday, January 30, 2020

Location: New York, NY

This is to certify that I, Maria E. Paulsen,
(the undersigned), do hereby certify that the
foregoing transcript is a complete, true and accurate
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such witness.

I further certify that I am not related to
any of these parties to this action by blood or
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the outcome of this matter.

IN WITNESS WHEREOF, I have hereunto set my
hand on this 7th day of February, 2020.

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